

Message Text

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FOR UNDERSECRETARY COOPER FROM AMB VANDEN HEUVEL
ALSO PASS TO ASST SEC KATZ, ASST. SEC. BERGSTEN, ASST. SEC.
MAYNES, AND AMB. OWEN

E.O. 11652: N/A
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SUBJECT: THE COMMON FUND - WHERE DO WE GO FROM HERE

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1. AT THE RECENT MEETING OF THE UNCTAD AD HOC INTERGOVERNMENTAL COMMITTEE, WE WERE ABLE TO DEFER THE DECISION ON A DATE FOR A RESUMPTION OF THE COMMON FUND NEGOTIATING CONFERENCE. NEVERTHELESS, IT IS CLEAR THAT THE G-77 AND THE UNCTAD SECRETARIAT CONSIDER THAT THE BEST WAY TO BREAK THE LIMITED OFFICIAL USE

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PRESENT DEADLOCK IS TO RESUME THE FORMAL NEGOTIATIONS. TIME HAS BEEN BLOCKED OUT IN NOVEMBER FOR A 2-3 WEEK MEETING, AND IT IS HIGHLY LIKELY THAT UNCTAD SYG COREA, WHO HAS RESPONSIBILITY TO SET THE DATE FOR RESUMING THE CONFERENCE, WILL DECIDE TO RECONVENE IT DURING THAT PERIOD. IT IS VIRTUALLY CERTAIN, IN ANY EVENT, THAT A NEGOTIATING CONFERENCE WILL BE CONVENED BEFORE UNCTAD-V. THE LDCA AND THE UNCTAD SECRE-

TARIAT WILL CERTAINLY WANT TO RESERVE THE POSSIBILITY OF USING UNCTAD-V AS A FORUM TO REACH AGREEMENT ON THE KEY ISSUES IF THE NEGOTIATING CONFERENCE DOES NOT. THE PRESURES WILL BEGIN IN EARNEST THIS AUTUMN.

2. DIFFERENT LDC'S SEE THE COMMON FUND ISSUE DIFFERENTLY, THROUGH THE SPECTRUM OF THEIR OWN SELF INTEREST, AND THEY THEREFORE ASCRIBE DIFFERING DEGREES OF IMPORTANCE TO ITS ATTAINMENT. THEY ALSO DIFFER IN THE RELATIVE PRIORITIES THEY ATTACH TO THE ELEMENTS OF THE BASIC G-77 PROPOSAL, BUT NONE ARE PREPARED TO OPPOSE THE PROPOSAL ITSELF. THE COMMON FUND REMAINS THE KEY ISSUE IN THE INSTITUTIONALIZED, MULTILATERAL NORTH-SOUTH DIALOGUE, AND A FAILURE OF THE CONTINUING, DRAWN-OUT EFFORT TO CARRY OUT THE REPEATEDLY ENDORSED UNDERTAKING TO ESTABLISH A COMMON FUND WOULD BE A REAL SETBACK IN THE EFFORT TO DEVELOP COOPERATIVE WORKING ARRANGEMENTS WITH THE LDC BLOC AND TO AVOID THE UGLY, CONFRONTATIONAL ATMOSPHERE THAT PREVAILED A FEW YEARS AGO. THE RECENT DECLARATION AT THE BONN SUMMIT HAS, OF COURSE, ENCOURAGED G-77 EXPECTATIONS OF EARLY SUBSTANTIAL PROGRESS. EVEN THOUGH THE SUMMIT COMMUNIQUE DID NOT REFER TO A PARTICULAR TYPE OF COMMON FUND STRUCTURE, IT IS NOT VIEWED BY THE G-77 AS A SIMPLE REITERATION OF THE SIMILAR UNDERTAKING MADE LAST YEAR IN CIEC. SINCE THEN, THE NOVEMBER CF NEGOTIATING CONFERENCE WAS HELD, WITH THE G-77 MAKING CLEAR THEIR REFUSAL TO COMPROMISE ON THE BASIS OF THE GROUP B "SIMPLE LIMITED OFFICIAL USE

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POOLING" PROPOSAL. THEY CONSIDER THAT SINCE THEIR POSITION ON THIS IS CRYSTAL CLEAR, THE BONN LANGUAGE MUST BE READ AS INDICATING A WILLINGNESS BY THE MAJOR GROUP B COUNTRIES TO NOW TAKE A SIGNIFICANT STEP TOWARD COMPROMISE.

3. IT IS TRUE THAT ALL PARTIES INVOLVED HAVE EQUALLY PLEDGED THEMSELVES TO A SUCCESSFUL OUTCOME OF THE NEGOTIATIONS, AND IT WOULD BE ILLOGICAL FOR THE G-77 TO PLACE BLAME FOR A FAILURE ON GROUP B OR INDIVIDUAL MEMBERS THEREOF. THIS IS PARTICULARLY TRUE SINCE GROUP B HAS COME FORWARD WITH WHAT MOST OF ITS MEMBERS CONSIDER TO BE A REASONABLE AND FAIR WAY TO ESTABLISH A COMMON FUND, AND THUS TO FULFILL THEIR CIEC COMMITMENT. THE POLITICAL REALITY, HOWEVER, IS THAT THE G-77 WILL CONSIDER GROUP B TO BE THE GUILTY PARTY IF THE NEGOTIATIONS FAIL, AND THEIR ABILITY TO PERSUADE ANY NEUTRAL OBSERVERS THAT THIS IS INDEED THE CASE WILL BE HEIGHTENED BY DEFECTIONS FROM AND DISSENSION WITHIN THE GROUP B CAMP. THESE CONSIDERATIONS ARE IMPORTANT, BUT THEY SHOULD NOT DOMINATE OUR STRATEGY AND OBJECTIVES. WE CAN ONLY PREVAIL--NOT ONLY WITH THE LDCS BUT MORE SIGNIFICANTLY WITH OUR OWN CONGRESS--IF WE ARE CONVINCED THAT THERE ARE BOTH ECONOMIC AND POLITICAL BENEFITS FOR THE US AS WELL AS

THE DEVELOPING COUNTRIES. THE BONN SUMMIT STATEMENT CAN ONLY BE INTERPRETED AS AN AFFIRMATIVE CONCLUSION BY THE USG THAT THERE IS SUFFICIENT ECONOMIC AND POLITICAL RATIONALE TO JUSTIFY OUR GOING FORWARD AND URGING THAT A CF BE CREATED AND GIVEN A CHANCE.

4. WHILE THERE ARE NO SIGNS THAT OUR GROUP B ALLIES ARE PANICKING, IT IS CLEAR THAT MOST GROUP B COUNTRIES ARE PREPARED TO MOVE FORWARD IN THE INTEREST OF REACHING COMPROMISE. WHILE SOME MODIFICATION IN THE DEPOSIT RATIO IS CONSIDERED AS A STEP IN THE RIGHT DIRECTION, OUR ASSESSMENT IS THAT MOST CONSIDER THAT THIS WILL NOT BE ENOUGH AND THAT A RIGID GROUP B REITERATION OF ITS PREVIOUS POSITION WITH

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ONLY SUCH A RELATIVELY MINOR MODIFICATION WOULD BE A FORMULA FOR FAILURE IN NOVEMBER AND POSSIBLY CONFRONTATION AT MANILA. THERE IS THUS A DISPOSITION TO LOOK FOR NEW APPROACHES, AND A DANGER THAT DIFFERENT GROUP B COUNTRIES WILL SHOW FLEXIBILITY ON DIFFERENT ISSUES, RESULTING IN OVERALL GROUP B DISARRAY AND ON EVENTUAL CONSENSUS ON A FUND OF A NATURE COMPLETELY UNACCEPTABLE TO US.

5. IN THIS SITUATION, WE CONSIDER IT IMPORTANT THAT THE US TRY TO DEVELOP A STRATEGY FOR NEGOTIATION THAT WILL SUCCEED,

AND WILL DO SO IN A WAY THAT UNDERLINES THE US LEADERSHIP
ROLE AND INVOLVES THE ESTABLISHMENT OF A COMMON FUND IN A
FORM THAT WE CAN SUPPORT AND CAN JUSTIFY TO THE CONGRESS.

6. REFTEL REPORTS ON RECENT CONVERSATIONS WITH THE NEW
GROUP B COORDINATOR IN GENEVA ON THE COMMON FUND, AMB HESSEL
OF FRANCE, IN WHICH HE SAID THAT HE BELIEVES THAT THERE ARE
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TWO ABSOLUTE MINIMUM CONDITIONS FOR COMPROMISE; (1) THE
FIRST WINDOW MUST HAVE DIRECT GOVERNMENT CONTRIBUTIONS PAID
IN IN ADVANCE OF ANY ICAS JOINING THE COMMON FUND AND (2) A
SECOND WINDOW WITH A FINANCIAL ROLE BASED ON VOLUNTARY
CONTRIBUTIONS. WHILE BOTH OF THESE POINTS WOULD INVOLVE
DEPARTURES FROM THE PREVIOUS GROUP B POSITION, HE BELIEVES
THAT THEY COULD BE NEGOTIATED IN A WAY THAT WOULD NOT DO
VIOLENCE TO GROUP B'S BASIC OBJECTIVES. REFTEL ALSO DETAILS
THE ULTIMATE COMPROMISE THAT HESSEL ENVISAGES.

7. WE DO NOT BELIEVE THAT THE G-77 WOULD BE PREPARED TO
ACCEPT SUCH A COMPROMISE IN THE SHORT RUN. THEIR OFFICIAL
POSITION REMAINS THAT THE FIRST AND SECOND WINDOW OPERATIONS
SHOULD BE SUBSIDIARY PARTS OF A UNIFIED COMMON FUND, THAT
DIRECT CONTRIBUTIONS BE AVAILABLE FOR BOTH FIRST AND SECOND
WINDOW PURPOSES (INCLUDING FINANCING OF NATIONAL STOCKS) AND
THAT THE VOTING ARRANGEMENTS GIVE THEM POWER OF CONTROL. IT
IS CONCEIVABLE, HOWEVER, THAT IF GROUP B WERE TO INDICATE
THAT IT COULD SUPPORT A COMPROMISE SUCH AS DISCUSSED IN
REFTEL AND MAKE IT ABSOLUTELY CLEAR THAT IT WOULD GO NO
FURTHER, THAT THE G-77 WOULD ACCEPT IT AS AN ALTERNATIVE TO
FAILURE OR PROTRACTED DEADLOCK. THE TIMING OF THESE CHANGES
OF POSITION AND THE DEGREE OF ASSURANCE OF THEIR ACCEP-
TABILITY BEFORE FINAL COMMITMENT ARE PART OF THE STRATEGY
AND TACTICS THAT MUST BE DECIDED BY OUR NEGOTIATORS. SUCH
TIMING IS OBVIOUSLY CRUCIAL TO OUR OBJECTIVES. WE SHOULD
HAVE A STRATEGY THAT BEGINS WITH THE NEXT INFORMAL CONSULTA-
TIONS--WHICH COREA HOPES TO HOLD AS EARLY AS THIS MONTH--AND
THAT CONTEMPLATES CONTINUING DISCUSSIONS INTO UNCTAD-V
ITSELF.

8. THE PROPOSAL FOR DIRECT (ALTHOUGH LIMITED) CONTRIBUTIONS
TO THE FIRST WINDOW IS A DIFFICULT ISSUE FOR THE U.S. WE DO
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AGREE WITH HESSEL, HOWEVER, THAT SOME CONCESSION ON THIS
WOULD PROBABLY BE NECESSARY IF WE WANT TO REACH A COMPROMISE

AGREEMENT AND I BELIEVE THIS CAN BE HANDLED IN A WAY THAT WOULD ACTUALLY STRENGTHEN THE ORIGINAL GROUP B PROPOSAL. ON THE OTHER HAND, I BELIEVE THAT CERTAIN CONDITIONS WOULD NEED TO BE MET IF WE WERE TO SUPPORT A DIRECT CONTRIBUTION TO THE FIRST WINDOW. (1) IT WOULD NEED TO BE MADE CLEAR THAT FIRST WINDOW FUNDS WOULD BE USED EXCLUSIVELY TO FINANCE ICA BUFFER STOCKS, AND IN ACCORDANCE WITH RULES AND AGREEMENTS BETWEEN THE CF AND THE ICAS LAID DOWN IN ADVANCE ENSURING THE FINANCIAL PROBITY AND VIABILITY OF THE CF. (2) THE SOURCES OF DIRECT CONTRIBUTIONS WOULD NEED TO BE SPECIFIED. OUR OBJECTIVE MIGHT BE TO ENCOURAGE A REAL PARTNERSHIP BETWEEN THE DEVELOPED AND DEVELOPING WORLDS BY REQUIRING A RATHER HIGH ENTRANCE FEE WHICH WOULD PROVIDE AN IMPORTANT CAPITAL CONTRIBUTION; ALTHOUGH IN DOING THIS WE SHOULD BE ALERT TO THE POSSIBLE CLAIM THAT MIGHT RESULT IN DETERMINING VOTING CONTROL AND MANAGEMENT. DETAILED US VIEWS ON THE EXACT BASIS OF FUNDING WOULD NEED TO BE WORKED OUT. A NUMBER OF PLAUSIBLE FORMULAS COULD BE PROPOSED THAT WOULD INVOLVE US SHARE OF DIRECT CONTRIBUTIONS THAT WOULD BE MODEST ENOUGH TO SURVIVE THE PRESENT CONGRESSIONAL ANTAGONISM TO FOREIGN AID APPROPRIATIONS.

9. I BELIEVE A REQUEST FOR A LIMITED DIRECT CONTRIBUTION IN THE CONTEXT OF A BUSINESS-LIKE ICA COULD BE JUSTIFIED TO THE CONGRESS ON PURELY ECONOMIC GROUNDS, LEAVING ASIDE THE POLITICAL ADVANTAGES OF SOLVING A THORNY NORTH-SOUTH ISSUE. IN COMPARISON WITH THE GROUP B COMMON FUND PROPOSAL, A CF WITH A DIRECT CAPITAL CONTRIBUTION COULD WELL BE STRUCTURED WITHOUT INCREASING THE US FINANCIAL CONTRIBUTION. THIS IS BECAUSE THE GROUP B SCHEME CALLS FOR A 75 PERCENT DEPOSIT RATIO BY EACH ICA, INVOLVING A HEAVY INITIAL CAPITAL INPUT BY ALL MEMBER GOVERNMENTS. GROUP B HAS RECOGNIZED THAT A LOWER RATIO MAY BE POSSIBLE. HOWEVER, WHATEVER AMOUNT IS

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EVENTUALLY DECIDED TO BE THE MINIMUM CONSISTENT WITH FINANCIAL VIABILITY, AN EVEN LOWER DEPOSIT REQUIREMENT COULD BE COUNTENANCED IF THE CF HAD A CAPITAL POOL, THUS ENHANCING ITS ABILITY TO BORROW ON PRIVATE CAPITAL MARKETS.

10. THE PROPOSAL FOR A SECOND WINDOW BASED SOLELY ON VOLUNTARY CONTRIBUTIONS SHOULD BE ACCEPTABLE AS PART OF A FINAL PACKAGE, IF THE KIND OF OTHER MEASURES CONTEMPLATED INVOLVED A USEFUL SUPPLEMENTARY SOURCE OF FINANCING OTHER MEASURES, AND IT WERE CLEAR THAT AT LEAST FOR THE FORESEEABLE FUTURE THE US HAD NO INTENTION TO CONTRIBUTE. OTHER GROUP B COUNTRIES, WHO ARE MORE POSITIVE TO THE SECOND WINDOW IDEA, WOULD UNDOUBTEDLY WANT TO TAKE THE LEAD IN DEFINING AND LIMITING THE SECOND WINDOW'S EXACT ROLE, AND IN DEVELOPING SATISFACTORY VOTING AND CONTROL ARRANGEMENTS. WE BELIEVE LIMITED OFFICIAL USE

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THAT THESE WOULD BE SEPARATE AND DISTINCT FROM THE ARRANGEMENT FOR THE FIRST WINDOW. THE G-77 CAN BE EXPECTED TO OPPOSE SUCH CLEAVAGE, BUT IN OUR VIEW THIS WOULD HAVE TO BE PART OF A FINAL SETTLEMENT.

11. VOTING AND CONTROL IS ANOTHER IMPORTANT ASPECT AND IT WOULD BE IMPORTANT FOR GROUP B TO HAVE A FULLY WORKED-OUT, AGREED PROPOSAL WHICH WOULD ENSURE THE PROBITY AND VIABILITY OF THE FUND. THIS IS A QUESTION THAT SHOULD RECEIVE PRIORITY ATTENTION AT AN EARLY INFORMAL CONSULTATIVE MEETING. THIS COULD BE OUR CONDITIONAL PRELUDE TO RESUMPTION OF THE NEGOTIATIONS.

12. IN SUMMARY, WHILE THE EARLIER US-GROUP B PROPOSAL WAS SOUND, THE TACTICAL SITUATION CALLS FOR NEW APPROACHES, AND I BELIEVE WE CAN NOW WORK OUT A NEW PROPOSAL WHICH WOULD BE A MOVE IN THE DIRECTION OF MEETING THE CONCERNS OF THE G-77 MODERATES AND WHICH WOULD ALSO BE IN OUR OWN ECONOMIC INTERESTS AND SHOULD THUS BE ATTRACTIVE TO CONGRESS. WHEN I AM IN WASHINGTON AUGUST 8-10, I HOPE IT WILL BE POSSIBLE TO DISCUSS THIS MATTER WITH YOU AND OTHER CONCERNED POLICY

OFFICIALS. AS YOU MAY KNOW, WHILE HE WAS IN GENEVA, SECRETARY VANCE MENTIONED THE HOPE OF ARRANGING A REVIEW SESSION ON THE CF ISSUE IN AUGUST. IF THIS STILL LOOKS POSSIBLE, THE TIMING OF OUR MEETING MIGHT TAKE THAT HOPE INTO ACCOUNT.
VANDEN HEUVEL

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